

**MINUTES OF APRIL 16, 2008, RETIREMENT BOARD
CITY OF ALEXANDRIA FIREFIGHTERS AND POLICE OFFICERS
PENSION PLAN
INTERIM MEETING**

PRESENT

<u>Members</u>	<u>Others</u>
Michael Cross, Chair	Steven Bland, Retirement Administrator
Michele Evans, Secretary	Anthony Dejerolme, Retired Police Officer
Patrick Evans (Alternate)	John Horvath, Retired Police Officer
Henry Howard	Arthur Lynch, Retirement Specialist
Mark Jinks	Theresa Nugent, Communications Specialist
Bruce Johnson (Alternate)	Christopher Spera, Assistant City Attorney
Chris Lockwood	
Shirl Mammarella (Alternate)	
Edward Milner	
Albert Tierney	
Laura Triggs	

CALL TO ORDER

The meeting was called to order at 8:38 A.M. on April 16, 2008.

MINUTES

There was a motion by Ms. Triggs and seconded by Mr. Jinks to approve the February 21, 2008, minutes. The motion was unanimously approved (7-0).

PUBLIC TESTIMONY

Mr. Milner arrived.

Mr. Horvath asked to speak on the topic of investment options in the Retirement Income Plan for disabled participants. Mr. Horvath requested either the option to self direct his funds as was provided to a participant in the Retirement Income Plan or to have access to his account by rolling it over to an IRA.

Mr. Evans arrived.

Ms. Evans arrived.

Mr. Horvath indicated that at disablement the participant was not provided adequate information on Social Security and state hospitalization benefits.

Shirl Mammarella arrived.

Mr. Horvath suggested parity between uniformed officers would allow for disabled police officers to have access to their defined contribution account.

Anthony Dejerolme discussed his career with the City of Alexandria beginning in 1970 and the transition from a defined benefit plan in 1979 to a defined contribution plan. He displayed several medals and awards for his service. He would trade them in for a larger benefit.

Mr. Horvath said diversified accounts had fallen significantly since October 2007 and suggested accounts would not have fallen as much had other options been available. He asked if disabled participants could serve on the Retirement Board. Mr. Cross answered they could, they had to run for election. Ms. Evans suggested he regularly attend meetings. Meeting announcements were then discussed. Pension Division will post announcements on its website and the City Clerk will post them on the City's site as well.

Mr. Cross summarized by stating that the issues are: 1) Representation, 2) Increase in investment options, and 3) Permitting rollovers for disabled participants.

Mr. Tierney discussed the coordination of the Retirement Income Plan and the Disability Income Plan. He then asked why a participant's take home benefit might fall at conversion to retirement. Staff indicated it was a combination of two factors: 1) the disability benefit is non-taxable prior to retirement and the annuity purchased at retirement is taxable, and 2) a participant may have a single life benefit while receiving disability benefits prior to retirement and elect a joint and survivor option for a purchased annuity following retirement. Mr. Tierney asked if others might be in a similar position. Mr. Jinks indicated incidence of disability was higher with older employees. Older employees will have larger pensions and/or Retirement Income Plan balances. The offset to the disability plan will be taxable. There will be more people in this situation.

Staff was asked to illustrate the benefits before and after conversion from disability to retirement.

BOARD TRAINING

Mr. Cross introduced the talk by mentioning a recent Supreme Court decision on trustee's fiduciary liability.

Mr. Spera's presentation began with distributing three handouts. He then discussed the legal protection afforded Board members by section 15.2-1405 of the Virginia code. One potential issue may be that this law is for boards serving the public whereas the retirement Board serves a limited group.

Mr. Spera discussed actions that may result in liability:

- a) Acting in bad faith. This is most rare. It might include self-dealing but our Board is not in position to direct cash flows.
- b) Gross Negligence. This might include failure to get out of a bad fund upon the advise of our investment consultant and/or Prudential.
- c) Acting outside the scope of responsibility. There is little legal risk if the Board operates within the scope of their jurisdiction. Trouble may arise if a Board member advocates in a way that is not in the best interest of the plan.

Ms. Evans left the meeting.

Mr. Tierney requested some examples. Mr. Spera cited Prudential's early errors in administering the Fire and Police plan. The Board would have been negligent if those errors continued and the Board did not take action to remove Prudential as the Third Party Administrator. A second example of negligence would be if the Board made a decision on an issue totally ignoring information that is widely covered in the Press. An example of acting outside scope of responsibility would be if the Board tried to become involved in the day-to-day operational decisions. An example of an individual acting in bad faith would be an individual Board member who works to have his/her cousin appointed as Plan Attorney and, the cousin makes bade decisions. The individual Board member can be held liable.

Staff asked if there is a conflict in receiving advice from Prudential because they have a vested interest in the plan. Mr. Spera indicated the Board was aware of Prudential operating as a fee-based manager.

Mr. Spera indicated the Plan was obliged to provide legal defense for the fund. The City is responsible for providing counsel for the Board at no cost. Members may elect to pay for their own counsel. The City self-insures for liability coverage and is obligated to make up losses for legal expenses from a suit unless the suit is due to the actions of an individual acting improperly.

Mr. Spera summarized by saying:

- a) It is prudent to think about these issues
- b) This Board is not structured as a corporate board and does not have the same potential liability concerns;
- c) There are a limited number of external sources of trouble; and
- d) Board members can make recommendations on changes to the plan benefits but should not let members think they can make the changes.

Mr. Spera reminded the Board that he is on call during Board meetings to respond to Board questions or concerns.

ADMINISTRATOR'S REPORT

FOLLOW UP ITEMS

Staff addressed conflicting information that Prudential provided in the November 7, 2007, Board meeting. One page from their report indicated a \$137 million fund balance while another page

indicated it was \$133 million. A \$4 million real estate purchase was double counted. The correct figure was \$133 million.

In previous meetings participant representatives had mentioned dissatisfaction with Prudential's one line information. Specifically, the Personal Information section caused confusion. The service credit is out of date, as is the salary. Disclosures mention the "as of" date of the data. However, this date does not match the "as of" date of the service credit. Staff distributed a recent printout from the Prudential website with a new disclosure. This disclosure explained the "as of" date of the service credit. Staff suggested this was not everything we had asked Prudential to do, however, it was a step in the right direction. Members were generally not satisfied. Mr. Tierney asked why we could not do better. Staff suggested much of the pension world, including the majority of Prudential's clients, provided service credit on an annual basis, as opposed to monthly as the City of Alexandria does. Ms. Powell is scheduled to attend the May meeting and she will be asked to address the issue at that time.

DISABILITY CONVERSION AT RETIREMENT

Mr. Lynch discussed the Pension Administration disability conversions at retirement. The Pension Administration Division was preparing calculations that had not been done for four years. Doing the calculations now is easier than years or possibly decades from now when the participant reaches Normal Retirement Age and data may be harder to obtain. This data had not previously been sent to the actuary. Thus disability costs were slightly overstated and retirement costs were slightly understated by an equal and offsetting amount. Staff was asked to estimate the equal and offsetting rate change in disability and pension when the actuary incorporates the accrued pension benefit into the disability calculation.

PROGRESS REPORT – ACTUARIAL VALUATION

Staff reported on the actuarial valuation. Both the Pension Administration Division and Prudential were asked to send significant quantities of data to the actuary. It appears that both sent almost all of the requested data was sent. However, a portion slipped through the cracks. Some time elapsed before the oversight was addressed. The last of the required data is on its way. The valuation should be completed in late June or early July.

REBALANCING COMPLETED

Staff reported on rebalancing. This was done in March. Bonds were sold near their highs to purchase equities near their lows. The monthly Summary of Activity by Fund report was distributed. The current allocations are extremely close to the target allocations.

COST OF LIVING ADJUSTMENT (COLA)

The 2008 COLA will be 3%. Information on the COLA will be posted to the website.

LETTER FROM SEIX

Staff referred to a letter from Seix that there has been a change in key a staff member. Staff indicated that it was standard for Seix to send us this information and that it would be very unusual for a new manager to come in and make major changes immediately. Changes tended to take time. This information has been sent to DAHAB.

COMMITTEE REPORTS

DISABILITY COMMITTEE

Mr. Tierney reported that as of the last meeting the committee members were not inclined to recommend changing the disability provisions Ken Hoffman had discussed – benefit levels for late age hires. The data which staff provided following the February meeting did not cause committee members to change their view, they continue to believe the disability provisions are appropriate.

VALUATION AND TECHNICAL CORRECTIONS COMMITTEE

Mr. Cross discussed the Valuation and Technical Corrections Committee's work. He indicated that they were almost ready to turn over their recommendations to the Board to make decisions.

The Pension Protection Act of 2006 requires the plan adopt certain technical corrections by December 31, 2008.

Election procedures are being reviewed as well as how to deal with resignations from the Board. Longer terms and staggering the election of participant representatives are being considered. Taking the election rules out of the Plan Document is also being considered.

The DROP provisions need technical corrections to the dates and definitions. No benefits will be changed.

The committee worked on compensation for acting pay. Administrative Regulation 6-14 provides guidance on acting pay for general and Public Safety personnel. Acting pay beyond 30 days is considered pensionable. Personnel Services Department reported to the committee the proper way to report earnings. The Fire Department should follow the procedures of using the TRP pay code for hourly acting compensation until thirty consecutive days. Thereafter a Personnel Action Form should be completed to put them in acting status that becomes pensionable. Mr. Cross asked management to make the Fire Department aware of the policy for payment of acting pay.

There is lack of clarity in the Plan document with respect to disability. Mr. Cross referred to Staff. Staff explained how upon conversion to retirement the accrued pension, and/or Retirement Income Plan, if applicable, offset the disability benefit. For service related – non-vested benefit is it is not clear whether or not the benefit is vested. One might argue that the member was not

vested and therefore the member should receive the full 66 2/3% benefit plus a refund of contributions. Mr. Hoffman did not believe this had a strong chance in court, but should be clarified.

Mr. Cross discussed spousal consent/acknowledgement. Current plan provisions do not call for spousal protection. The Committee looked at how VRS handles this. Mr. Tierney asked staff what was the industry standard for spousal consent. Staff contrasted the approach of the public and private sectors.

Mr. Cross reported that the compliance issues needed to be in the Plan Document by December 31, 2008. Staff reported that the recodification/restatement of the Plan Document would take place after that. Mr. Cross said the committee has to finish up with Ken Hoffman so they could present at the next Board meeting. There needs to be a meeting in July to present the committee's recommendations as well as consider the valuation.

OLD BUSINESS

JOINT AND SURVIVOR 25% and 33 1/3%

Mr. Lockwood reported this was no longer an issue. There was only one person who was interested in the option and that did not merit the expense of creating new options.

OPTIONS FOR EXPANDING ASSET ALLOCATION

Mr. Cross introduced the topic by recalling the relative performance of the pension fund as the asset allocation changed over time. He hopes a similar change to the Disability fund will help just as much.

Staff reviewed a ten-page handout with possible asset allocations. It began with the existing Disability Income Plan. The handout explored utilizing more of SunTrust's capabilities. Then it displayed several options for pooling investments from two or more plans.

Ms. Mammarella made a motion:

Dahab and Associates are to review the options for expanding asset allocations discussed in the handout. Dahab and Associates should not consider any pooling of funds other than the Disability fund and the Firefighters and Police Officers Pension fund.

Mr. Jinks seconded the motion.

The motion carried (8-0).

MEMBER EDUCATION

Mr. Tierney suggested retirement/investment education be made mandatory. Others expressed that members are forced to attend meetings they do not want to attend, do not pay attention, and learn nothing. There were suggestions of making mandatory training for young employees for whom investment information is valuable owing to the value of long time horizons. There were suggestions of making mandatory training for older employees for whom investment information is valuable owing to the nearness of retirement.

Ms. Triggs noted that there have been retirement seminars for these members that had low attendance.

Mr. Tierney expressed concern whether members know how the transition from disability to pension works.

Ms. Mammarella expressed concern over the lack of appropriate retirement counseling at the end of a member's career.

Several Board members felt members only pay attention when they are ready to retire.

Mr. Jinks asked if the City of Alexandria newsletter was effective. Most thought it was not read.

Mr. Milner said no agency is obliged to provide benefit resources.

Ms. Triggs asked if we might stuff the annual statements with a letter of our own.

Mr. Evans said the Fire Department provides education on the pension plan and the 457 Deferred Compensation Plan during their orientation and in follow up sessions.

Mr. Milner felt one problem with mandatory training for Police Officers was their high turnover.

Mr. Tierney said there should be some follow up with supervisors to address retirement planning during Roll Call to help add impact.

Mr. Jinks directed staff to present an overview of the Pension Division's communication program.

Mr. Tierney suggested we focus efforts on a Frequently Asked Question (FAQ) format. This would allow Board members to refer members to information on the website. He said members frequently address questions on the plan to him.

Ms. Nugent asked if all Police and Fire employees have e-mail. She raised the possibility of sending periodic e-mails to all participants. Ms. Mammarella suggested the communications be short, concise, and scary to capture the member's attention. Mr. Howard suggested we focus distinct messages based on the members' age or time until retirement eligibility.

NEW BUSINESS

BUYBACK FOR SHERIFFS, ERTS & FIRE MARSHALS

Mr. Milner provided background for the buyback issue. There was a question as to whether or not the original buyback committee had disbanded. Mr. Cross had spoken with former Chairman Lawhorne and they believed it had disbanded. There was agreement that the issue of Sheriff, ERT, and Fire Marshal buyback had been tabled until the first buyback was completed. It was decided that it is now appropriate to recreate the committee.

Mr. Tierney asked how much vendor fees were for the last buyback. Staff answered the legal and actuarial expense was nearly \$100,000 and that eight of twelve members purchased service.

Mr. Milner believes there are about 30 Police Officers that would be affected. Mr. Lockwood said there could be some eligible Dispatchers and Paramedics in the Fire Department

Mr. Milner made a motion to:

Establish a committee to review a buyback option for participants in the Firefighters and Police Officers Pension Plan to purchase service credit for prior service as a Sheriff, ERT, or Fire Marshal and to identify all eligible members.

Ms. Triggs seconded the motion.

Discussion: The committee is to identify the characteristics or demographics of those potentially involved. The focus will be on Sheriffs, ERT, and Fire Marshals, however, the committee should identify others who had prior City of Alexandria service in non-uniformed positions. The committee is to report back to the Board before delving into costs or design issues.

The motion passed (8-0). Committee members are Ms. Evans, Mr. Lockwood, and Mr. Milner.

SET A DATE FOR JULY MEETING

The Board will meet July 10. Staff will find a meeting room and notify Board members and the City Clerk. The focus of the meeting will be presentation of the actuarial valuation and review of draft plan amendments from the Valuation and Technical Corrections Committee.

INVESTING IN AGRICULTURE

Mr. Lockwood asked for Dahab Associates' position on investing in agriculture. Staff was directed to forward this request.

ADJOURNMENT

A motion was made by Mr. Lockwood, and seconded by Mr. Jinks to adjourn. The meeting was adjourned at 11:53 AM.

NEXT MEETING

The next meeting will be May 20, 2008, at 8:30 AM in the Sister Cities Conference Room 1101.

HANDOUTS

Distributed in advance:

- Agenda
- Schedule of the 2008 Pension Board meetings
- Draft of the February 21, 2008 minutes
- Monthly Investment Reports
- Follow Up Items/Old Business
- CPI and 2008 Cost of Living Adjustment
- Five-Year Rolling Stock-Bond Correlation
- Letter from Seix Advisors announcing manager change, dated April 7, 2008
- Chief Investment Officer's Letter (VRS) November 8, 2007

Distributed During the Meeting:

- Presentation to Board On Fiduciary Liability (Christopher Spera)
- Article 10.5 Firefighters & Police Officers Plan Document (Christopher Spera)
- Article 10.16 Firefighters & Police Officers Plan Document (Christopher Spera)
- Summary of Activity by Fund for 2008